

AR14

Hudson's Bay



HOME OIL COMPANY LIMITED • Annual Report 1967



Senior Management

Standing (L to R): R. R. SMITH, Assistant to the President; G. W. BENNETT, Comptroller; W. T. WILKINSON, Manager, Marketing; B. B. ROMBOUGH, Treasurer.

Seated (L to R): R. F. PHILLIPS, Vice-President, Administration; I. M. DRUM, Vice-President, Special Projects; M. P. PAULSON, Vice-President, Production and Pipelines; R. W. CAMPBELL, Executive Vice-President and General Manager; G. J. BLUNDUN, Vice-President, Exploration; R. B. COLEMAN, Vice-President, Secretary and General Counsel.

HOME OIL COMPANY LIMITED AND SUBSIDIARY COMPANIES

DIRECTORS

JOHN W. MOYER

Calgary, Alberta
Chairman of the Board of the Company.

ROBERT A. BROWN, JR.

Calgary, Alberta
President and Managing Director of the Company;
Chairman and President of Cygnus Corporation Limited;
President of Natural Resources Growth Fund Ltd.;
Director of Trans-Canada Pipe Lines Limited, Crown Trust Company, Calgary Power Ltd.

ROBERT W. CAMPBELL

Calgary, Alberta
Executive Vice-President and General Manager of the Company;
Executive Vice-President and Director of Cygnus Corporation Limited;
Vice-President and Director of Natural Resources Growth Fund Ltd.;
Director of Trans-Canada Pipe Lines Limited.

THE RT. HON. THE EARL BEATTY, D.S.C.

London, England
Chairman of the Board of Home Oil of Canada Limited.

MARSH A. COOPER

Toronto, Ontario
Partner of James, Buffam & Cooper;
President of McIntyre Porcupine Mines Limited;
Vice-President and Director of The Granby Mining Co. Ltd.;
Director of Jefferson Lake Petrochemicals of Canada Ltd., Consolidated West Petroleum Limited, Granisle Copper Ltd., Natural Resources Growth Fund Ltd., Crown Life Insurance Company, Falconbridge Nickel Mines Limited.

E. FRED DAVIS

Los Angeles, California
Consultant to the Company.

MERVYN A. DUTTON

Calgary, Alberta
Chairman of the Board of Standard Holdings Ltd.;
President of Chinook Shopping Centre Ltd.;
Director of Crown Trust Company.

PERCY M. FOX

Montreal, Quebec
Chairman of the Board of The Great Lakes Paper Company, Limited;
President of Mohawk Corporation Limited;
Director of Argus Corporation Limited, Canadian Imperial Bank of Commerce, The Royal Trust Company, Domtar Limited, St. Lawrence Corporation Limited.

WILLIAM F. JAMES

Toronto, Ontario
Partner of James, Buffam & Cooper;
Vice-President and Director of Alminex Limited and Canadian Gas and Energy Investments Ltd.;
Director of Canadian Imperial Bank of Commerce, Cygnus Corporation Limited, Falconbridge Nickel Mines Limited, National Trust Company, Limited, The Patino Mining Corporation.

HARRY I. PRICE

Toronto, Ontario
Chairman of the Board of Harry Price Insurance Limited;
Director of Bramalea Consolidated Developments Limited, Bridge & Tank Company of Canada Limited, Burns Foods Limited, Cygnus Corporation Limited.

JOHN B. SANGSTER

Regina, Saskatchewan
Director of Guaranty Trust Co. of Canada, Natural Resources Growth Fund Ltd.;

RENAULT ST-LAURENT, Q.C., LL.D.

Quebec, Quebec
Partner of St-Laurent, Monast, Desmeules & Walters;
Director of Air Canada, The British Motor Corporation of Canada Ltd., Anglo-Canadian Pulp and Paper Mills, Ltd., Rock City Tobacco Co. (1960) Ltd., Banque Canadienne Nationale, National Trust Company, Limited, Sicard Inc., The Imperial Life Assurance Company of Canada, Scott Paper Limited, Gelco Enterprises Ltd., Canadian National Railways.

G. HARRY THOMPSON, M.C.

Calgary, Alberta
Chairman of the Board of Calgary Power Ltd.;
Vice-President and Director of Montreal Engineering Company Ltd.;
Director of Trans-Canada Pipe Lines Limited, Natural Resources Growth Fund Ltd.

ALVIN J. WALKER

Montreal, Quebec
Chairman, President and Managing Director of Holt Renfrew & Co. Ltd.;
Director of Canadian Fur Investments Ltd., Grouped Income Shares Ltd., Windsor Hotel Ltd.

JAMES B. WEIR, O.B.E., E.D.

Montreal, Quebec
Chairman of the Board of Oswald Drinkwater & Graham Ltd.

RALPH F. WILL

Calgary, Alberta
Private Investments.

39th
annual
report
1967



HEAD OFFICE — 304 Sixth Avenue S.W., Calgary, Alberta

HIGHLIGHTS

- Gross revenues up 7.8%.
- Daily crude and natural gas liquids production up 6.6%.
- Daily natural gas sales up 7.5%.
- Sulphur sales up 107%.
- The Company acquired 650,000 shares of Union Gas Company of Canada, Limited at a cost of \$9,656,000.
- The Company negotiated the private sale of \$7,000,000 (U.S.) 6 $\frac{7}{8}$ % Secured Bonds.

A Comparative Summary

	<u>1967</u>	<u>1966</u>
Gross Revenue	\$23,320,000	\$21,634,000
Net Flow of Funds from Operations	\$11,628,000	\$10,632,000
Per Share	\$ 2.33	\$ 2.15
Net Earnings	\$ 5,309,000	\$ 4,898,000
Per Share	\$ 1.06	\$ 0.99
Number of Shareholders	13,000	13,700
Shares Outstanding	4,990,000	4,945,000
Working Capital (Deficiency)	\$ (3,063,000)	\$ 5,875,000
Exploration Expenditures	\$ 6,597,000	\$ 6,387,000
Development Expenditures	\$ 2,723,000	\$ 4,032,000
Production and Sales		
Crude Oil Production – barrels per day	12,115	11,451
Natural Gas Liquids Production – barrels per day	2,176	1,949
Natural Gas Sales – thousand cubic feet per day	61,033	56,770
Sulphur Sales – long tons	42,182	20,343
Pipeline Gatherings		
Cremona Pipe Line Division – barrels per day	37,193	36,265
Federated Pipe Lines Ltd. – barrels per day	140,235	128,462



R. A. Brown, Jr.
President



J. W. Moyer
Chairman of the Board

To the Shareholders of Home Oil Company Limited

On behalf of the Board of Directors, I am pleased to present the thirty-ninth Annual Report of Home Oil Company Limited.

The year through which we have passed has been a testing one in many ways. Your Company has not escaped the impact of inflationary pressure on the Canadian economy. Thus, although our gross revenue in 1967 reached the highest point in history, increased costs and higher interest rates adversely affected our net earnings. However, we have completed several important expansionary projects in the field of natural gas processing and diversification into liquefied petroleum gas storage and marketing. These investments are expected to have a favorable influence on the Company's earnings in the years to come.

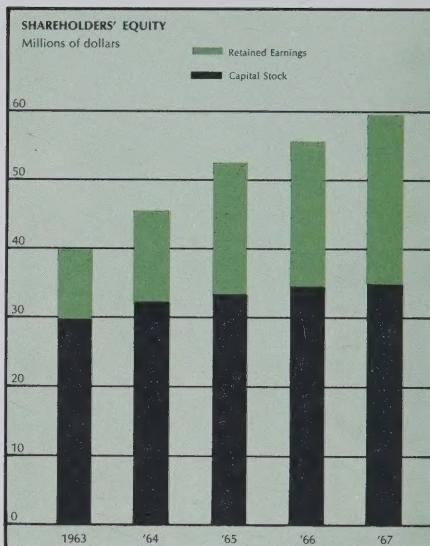
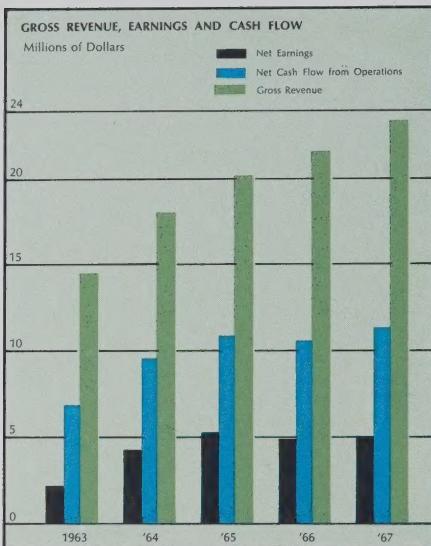
Financial

Gross revenue in 1967 was \$23,320,000, an increase of \$1,686,000 or 7.8% over 1966. Greater production of propane, butane and sulphur, to-

gether with higher prices received for these products, accounted for approximately half the improvement. Crude production from the Swan Hills area contributed significantly to the remainder of the increase, while natural gas revenues were slightly up. Other revenues, including investment income, remained relatively unchanged from a year ago.

Net earnings, before special credit, were \$5,048,000 or \$1.01 per share, compared with net earnings of \$4,898,000 or \$0.99 per share in 1966. The special credit of \$261,000 in 1967 arose from the sale of certain securities and its inclusion raised the net earnings to \$5,309,000 or \$1.06 per share. The Company follows the practice of providing for deferred income taxes. Net earnings before this provision were \$7,408,000 or \$1.48 per share, compared with \$6,935,000 or \$1.40 per share in 1966.

Net flow of funds from operations was \$11,628,000 or \$2.33 per share compared with \$10,632,000 or \$2.15 per share in 1966. Dividends amounting to 50 cents per share were again declared on both Class A and Class B shares.



In December, the Company sold privately \$7,000,000 (U.S.) 6 $\frac{7}{8}$ % Secured Bonds, due January 1, 1983, to two insurance companies in the United States. The proceeds were used to reduce bank indebtedness.

The Company's shareholdings in Trans-Canada Pipe Lines Limited and Calgary Power Ltd. were unchanged. A review of the activities of these companies is shown on page 9 of this report.

During the year, 650,000 common shares of Union Gas Company of Canada, Limited were acquired at a cost of \$9,656,000. Union is a natural gas production, transmission and distribution company operating in southwestern Ontario. It serves 293,000 customers, with gas sales of \$77.4 million and net earnings of \$8.8 million during its year ended March 31, 1967. The company and its subsidiary operate some 7,497 miles of pipelines, including 1,630 miles of transmission lines ranging up to 34 inches in diameter. The company also owns some 1,053 active or producing gas wells in fourteen fields in southwestern Ontario.

Exploration

Canada

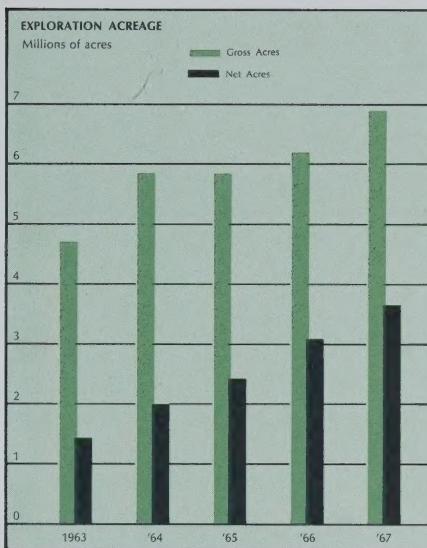
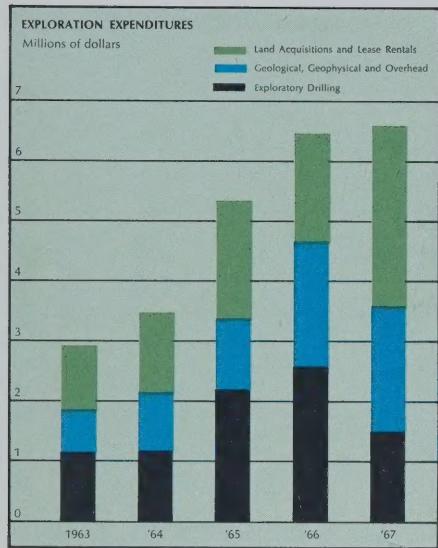
The Company continued its policy of active exploration and participated in the drilling of 21 exploratory wells. Of these, two were gas discoveries and one found crude oil. In addition to the above, four stratigraphic tests were drilled in the Christina Lake area in order to establish the presence of heavy crude oil reserves. These wells were successful. In the Cold Lake area, the Com-

pany has farmed out a reservation upon which an experimental steam injection project is to be installed. This operation will require the drilling of a number of injection wells and production wells and the construction of steam generating and injection facilities. The project has commenced and the farmee will be injecting steam in 1968.

In all, twenty-one wells were drilled in Alberta, one in Saskatchewan, one in Ontario and two in England. The gas discoveries were both made in Alberta. One was in the Bistcho Lake area and the other was a dual zone discovery in Marten Hills. The oil discovery was in the Craigower area of Southeastern Alberta.

West of the Company's Turner Valley oil field, an important natural gas discovery has been made by another company in the Quirk Creek area. Two successful sour wet gas wells have been completed and two others are being drilled. Home holds a large spread of acreage along this trend and with recent acquisitions now holds 48,000 net acres on which an active seismic program has been undertaken. In the Whitecourt area, two discoveries of natural gas were made by other companies. Home Oil has several capped gas wells in the vicinity and has chosen locations for two further drilling sites.

During 1968 the Company will conduct the largest geophysical exploration program in its history, including a continuation of the extensive seismic work undertaken in 1967 in the Meander River, Bistcho Lake and Steen River areas of Northwestern Alberta. In Saskatchewan, Home is participating in exploration on the Winnipegosis (Keg River) trend which extends from the East Central Alberta border through Saskatchewan in a southeasterly direction.



The Company's land holdings in Northwestern Alberta remained unchanged from a year ago. However, substantial blocks of acreage were acquired in other areas including Turner Valley and Whitecourt, on which geological and geophysical studies are being carried out. In Saskatchewan the Company added to its land holdings with the addition of 99,840 gross acres at Meadow Lake, 345,600 gross acres at East Winefred Lake, 89,104 gross acres at Saskatoon-North Battleford, 73,440 gross acres at Elbow, and 29,487 gross acres at Avonlea. In 1968, Home acquired five Sulphur Permits in the East Winefred area of Saskatchewan. These Permits cover an area of 495,120 acres.

During the year, the Company joined with two large mining companies in a syndicate to explore for minerals, primarily in British Columbia. Three properties were examined by geochemical and geophysical surveys; two were drilled and abandoned. It is planned to continue exploration on the third. During 1968, the Company intends to expand its mineral exploration program in British Columbia and other areas.

United Kingdom

In Yorkshire, England, two stepouts from the Lockton 2A gas discovery were dry and abandoned. In 1968 an offset well a mile east of the discovery was drilled and in early March successfully encountered the Middle Magnesian Carbonate, the same formation from which gas was obtained at the Lockton 2A well. A gross section of 154 feet was delineated. The well was undergoing production tests as this report went to press. Plans are underway to drill a stepout from the Ralph's Cross capped

natural gas well. The Company's large North Sea licences were retained in good standing while the interpretation of our marine seismic data was further refined.

Production and Processing

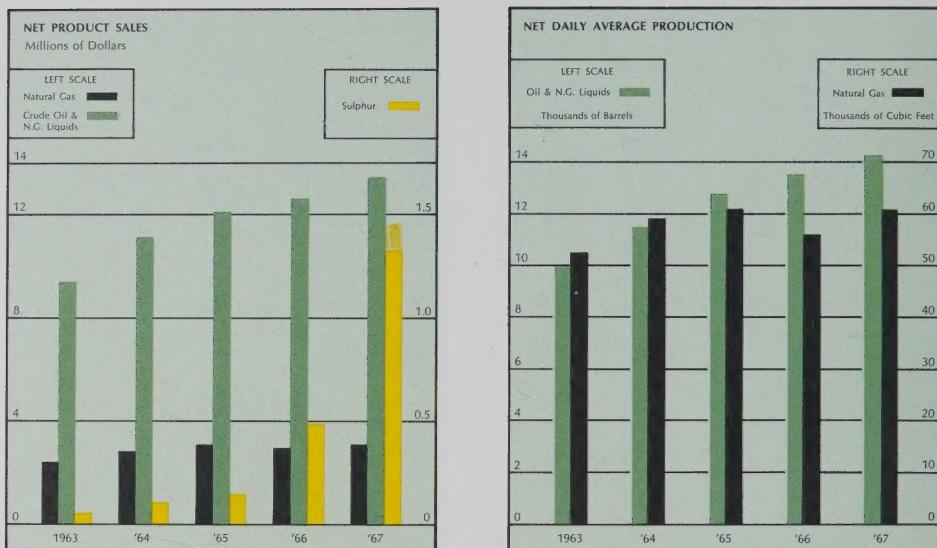
Net daily crude oil, natural gas liquids and oil equivalent of natural gas production averaged 17,343 barrels, compared with 16,238 barrels in 1966.

Daily crude oil and natural gas liquids production averaged 14,291 barrels, an increase of 6.6% over the 1966 daily average of 13,400 barrels. Natural gas sales increased to 61.0 million cubic feet per day from 56.8 million cubic feet in 1966, an increase of 7.5%. Sulphur sales more than doubled to 42,182 long tons from 20,343 long tons in 1966.

The increase in Home's crude oil production, which came mainly from the Swan Hills area, was attributable primarily to the larger demand in 1967 for Western Canadian crude. Swan Hills continued to provide more than 40% of the Company's oil production.

Natural gas liquids production increased 11.6% to 2,176 barrels per day, following the completion at mid-year of deep cut processing facilities at the Carstairs-Crossfield plant. A full year's operation in 1968 will result in a further increase in propane and butane production.

Increased natural gas sales from the Turner Valley, Harmattan Leduc and Jumping Pound areas more than offset decreased sales resulting from lower gas demand at Carstairs and temporary operating difficulties at Nevis. The capacity of the Carstairs-Crossfield plant was increased from 200 million to



260 million cubic feet per day. In addition, facilities were installed to recover all of the propane and butane contained in the raw gas stream.

The availability of twelve months' production from the Harmattan Leduc gas processing plant, which started operating in late 1966, accounted for the sharp increase in sulphur sales in 1967. Home has a 15% interest in this plant which processes sour gas from the Harmattan Leduc field. Progressive alleviation of operating problems, which have curtailed production since operations began, is expected to result in a further increase in sulphur production in 1968.

L.P.G. Marketing

The Company has a one-third interest in the multi-purpose plant of Hardisty Storage Ltd. in Eastern Alberta. Liquefied petroleum gas from Alberta gas processing plants is now being stored in underground caverns having a capacity of 600,000 barrels. Field grade butane is processed in the Company's 6,000 barrels per day fractionating plant. Pure propane is stored and sold without further processing. The production of the plant and from storage is marketed by Can-Am Liquids Ltd. and transported by Can-Am Transportation Inc., each 50% owned by Home Oil. The Hardisty plant went into operation in September. The transportation company now operates a fleet of 177 railway jumbo tank cars.

Pipelines

All crude oil pipelines in which Home Oil has an interest reported increases in 1967.

The wholly owned Cremona Pipe Line Division handling crude oil, condensate and butane, gathered a daily average of 37,193 barrels which compared favourably with 36,265 barrels in 1966.

Federated Pipe Lines Ltd., 50 percent owned by the Company, increased its throughput to an average of 140,235 barrels per day from 128,462 barrels in 1966. Additional pumping equipment was installed on the mainline in order to meet increasing demands.

Mitsue Pipe Lines Ltd., in which the Company has a one-third interest, recorded an average daily throughput of 24,274 barrels compared with 22,800 in 1966.

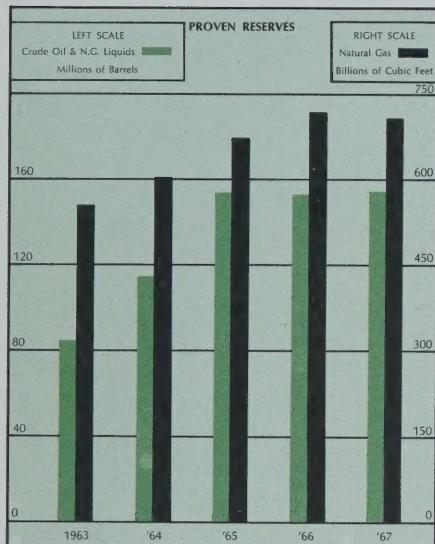
Reserves

The Company maintained its proven reserves of crude oil, natural gas liquids, natural gas and sulphur at a high level, despite increased production in all categories.

Proven remaining crude oil and natural gas liquids reserves increased slightly over last year. Proven natural gas reserves declined slightly with increased production and the recalculation of reserves in certain fields. **The natural gas reserves discovered in the United Kingdom have not been included in the reserve calculations.**

Sulphur reserves increased 30% to 1,646,000 long tons, largely due to the expansion of unitized areas in which Home has varying interests.

A summary of reserves, as computed by the Company's engineers, may be found on page 20.



Outlook

A most important development in Canadian crude oil marketing was the receipt in 1968 of U.S. government approval for the construction of the Interprovincial Pipeline loop into the Chicago area. The loop through the north central states will provide the Canadian oil industry with a 34 inch pipeline to Chicago.

The real significance of the approval is its implied acceptance of Canada as an important long term supplier of crude oil to one of the largest refining areas in the United States. Without this, the 40-inch, 417,000 barrels per day capacity CAPLINE project from the Gulf Coast to the midwest might well have pre-empted all growth in the midwest market for many years.

There is a growing awareness of the important role of natural gas in serving North America's projected energy requirements. Increased reliance upon supplies from Canada will be necessary to meet future demand. Your Company is focusing increased attention on exploration specifically for natural gas, which in the past has often been found incidental to the search for oil.

At the meeting to be held on April 25th the shareholders will be asked to approve Bylaw No. 24 creating 1,000,000 preferred shares with a par value of \$50.00 per share. The preferred shares will be issuable from time to time in series at the discretion of the Directors who will be authorized to fix the terms thereof at such time. Although the Company has no present plans for the issuance of these shares, the authorization now will give the Company greater flexibility in the event it should become desirable to increase the Company's equity capital.

ization or to issue preferred shares in connection with the acquisition of other companies. The shareholders will also be asked to approve a general revision of the Company's Bylaws, originally enacted in 1953, to update them in accordance with present corporate laws and practice.

The Rt. Hon. The Earl Beatty, D.S.C., of London, England, Mr. M. A. Cooper of Toronto and Mr. J. B. Sangster of Regina were elected to the Board of Directors of the Company. The Earl Beatty is Chairman of the Board of Home Oil of Canada Limited, (a U.K. subsidiary), Mr. Cooper is President of McIntyre Porcupine Mines Limited while Mr. Sangster is a director of several companies. These gentlemen bring to the Board valuable business and financial experience.

It is again my pleasure to express the appreciation of the Board of Directors for the effort and accomplishments of the staff, and to the shareholders for their support and interest.

Submitted on behalf of the Board of Directors,

R. A. Brown Jr.

PRESIDENT

MARCH 6, 1968
CALGARY, ALBERTA



HARDISTY STORAGE LTD. – LPG processing, storage and loading facilities, Hardisty, Alberta.



FEDERATED PIPE LINES LTD. – Crude oil storage and pipeline facilities, Swan Hills, Alberta.

TRANS-CANADA PIPE LINES LIMITED



Your Company retained its share interest in Trans-Canada Pipe Lines Limited at 1,291,885 shares. Operating revenue of this company for 1967 increased by 9% to \$168,122,000. A large portion of this increase in revenue resulted from sale of natural gas imported from the United States and the cost of this gas was substantially greater than Western Canadian gas landed in Eastern Canadian markets. The increased costs of the short term imports of natural gas from the United States and other expenses associated with the Great Lakes project reduced net income from \$16,501,000 in 1966 to \$14,859,000 in 1967. Net income after provision for dividends on preferred shares was \$12,059,000 in 1967 compared to \$14,751,000 in 1966.

Net income per common share in 1967 on the average number of shares outstanding during the year was \$1.47 compared to \$1.86 in 1966. Dividends of \$1.00 per share were declared during 1967 on common shares.

The volume of gas sold in the Canadian and United States markets served by the Company increased from 401 billion cubic feet in 1966 to 439 billion cubic feet in 1967. The average daily throughput on the Company's system increased from 1,099,000 to 1,203,000 Mcf in 1967.

In June, 1967 the application by Great Lakes Gas Transmission Company to construct a 36" 1,000 mile pipeline from Emerson, Manitoba through Minnesota, Wisconsin and Michigan to Sarnia, Ontario was approved by the Federal Power Commission. The first phase of the Great Lakes project was completed in December, 1967. This project will ultimately provide for vastly increased markets for Western Canadian natural gas and enable Trans-Canada's operating revenues to again reflect the growth patterns consistent with those experienced in the past.

CALGARY POWER LTD.



Home Oil's shareholdings in Calgary Power Ltd. remained at 526,875 shares at December 31, 1967.

Calgary Power Ltd. supplies two-thirds of the electricity requirements of the Province of Alberta. The Company's energy sales in 1967 were 3,586 million kilowatt hours, an increase of 9.3% over 1966. An increase in excess of 12% in 1968 is expected.

Gross operating revenue increased by \$3.2 million during 1967 to \$41.9 million. Net income for the year was \$9.7 million, an increase of \$0.9 million over 1966 after deducting the \$1.1 million Wabamun mine tax saving for 1966.

During the year the Company completed the installation of a second generating unit of 190,000 kilowatt capacity at its Brazeau Hydro Plant and is planning to commission the fourth generating unit of 286,000 kilowatt capacity at its Wabamun steam plant in early 1968. Construction was also commenced on a new steam plant at the Sundance site on the south side of Lake Wabamun. The first unit of 286,000 kilowatts for this plant is on order and is expected to be placed in service early in 1971. The coal reserves owned by the Company adjacent to the Sundance site, together with those adjacent to the existing plant on the north side of Lake Wabamun, make up a total of over 170 million tons of coal, sufficient to insure low cost fuel for economical power production well into the future.

As a major supplier of power in Alberta the Company's growth is closely tied to the Province's economy. In 1967 almost all sectors of the economy recorded gains throughout the year. Oil and gas industries, along with agriculture, again paced this growth, while a more diversified manufacturing industry continued to develop during the year. Perhaps one of the best barometers of Alberta's development is represented by the production of electric energy within the Province, which in the past twenty years has increased some 9½ times compared to about 3½ times for the country as a whole.

Auditors' Report

TO THE SHAREHOLDERS
HOME OIL COMPANY LIMITED

We have examined the consolidated balance sheet of Home Oil Company Limited and its subsidiaries as at December 31, 1967 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1967 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 23, 1968.

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants

Consolidated Statement of Source and Use of Funds

For the year ended December 31, 1967

	<u>1967</u>	<u>1966</u>
FUNDS WERE OBTAINED FROM		
Net earnings	\$ 5,309,000	\$ 4,898,000
Add charges to earnings not requiring funds including depreciation, amortization and deferred income taxes	6,319,000	5,734,000
Net flow of funds from operations	11,628,000	10,632,000
Long term borrowings – net	7,610,000	21,587,000
Issuance of capital stock	743,000	1,390,000
	<u>\$19,981,000</u>	<u>\$33,609,000</u>
FUNDS WERE USED FOR		
Property, plant and equipment	\$10,149,000	\$12,370,000
Repayment of long term debt	3,952,000	4,952,000
Dividends	2,481,000	2,458,000
Investment in Union Gas Company of Canada, Limited ..	9,656,000	–
Other investments – net	2,681,000	1,767,000
	<u>28,919,000</u>	<u>21,547,000</u>
Increase (decrease) in working capital	(8,938,000)	12,062,000
	<u>\$19,981,000</u>	<u>\$33,609,000</u>

The accompanying notes are an integral part of this financial statement.

Consolidated Statement of Earnings

For the year ended December 31, 1967

	<u>1967</u>	<u>1966</u>
REVENUE		
Operating revenue	\$20,039,000	\$18,176,000
Interest and dividends	3,281,000	3,458,000
	<u>23,320,000</u>	<u>21,634,000</u>
EXPENSE		
Operating expense	3,371,000	2,917,000
General and administrative expense	2,864,000	2,393,000
Amortization	2,637,000	2,306,000
Depreciation	1,471,000	1,276,000
Interest and expense on long term debt	5,574,000	5,758,000
Other interest	256,000	49,000
	<u>16,173,000</u>	<u>14,699,000</u>
Net earnings before deferred income taxes	7,147,000	6,935,000
DEFERRED INCOME TAXES (Note 4)	2,099,000	2,037,000
NET EARNINGS before special credit	5,048,000	4,898,000
SPECIAL CREDIT		
Gain on sale of securities	261,000	—
NET EARNINGS	<u>\$ 5,309,000</u>	<u>\$ 4,898,000</u>
EARNINGS PER SHARE		
Net earnings before special credit	\$1.01	\$.99
Special credit05	—
Net earnings	<u>\$1.06</u>	<u>\$.99</u>

Consolidated Statement of Retained Earnings

For the year ended December 31, 1967

	<u>1967</u>	<u>1966</u>
BALANCE at beginning of year	\$21,863,000	\$19,423,000
Net earnings	5,309,000	4,898,000
	<u>27,172,000</u>	<u>24,321,000</u>
Dividends declared		
Class A shares	1,344,000	1,329,000
Class B shares	1,137,000	1,129,000
	<u>2,481,000</u>	<u>2,458,000</u>
BALANCE at end of year	<u>\$24,691,000</u>	<u>\$21,863,000</u>

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

as at December 31, 1967

	ASSETS	1967	1966
CURRENT ASSETS			
Cash	\$ 5,030,000	\$ 5,910,000	
Marketable securities, at cost (quoted market value \$1,518,000)	628,000	1,843,000	
Accounts receivable	<u>6,412,000</u>	<u>5,556,000</u>	
	<u>12,070,000</u>	<u>13,309,000</u>	
INVESTMENTS, at cost (Note 2)			
Trans-Canada Pipe Lines Limited	33,470,000	33,470,000	
Calgary Power Ltd.	13,516,000	13,516,000	
Union Gas Company of Canada, Limited	9,656,000	—	
Other investments	<u>7,478,000</u>	<u>4,847,000</u>	
	<u>64,120,000</u>	<u>51,833,000</u>	
PROPERTY, PLANT AND EQUIPMENT,			
at cost (Note 7)	158,164,000	148,263,000	
Accumulated amortization and depreciation	<u>52,416,000</u>	<u>48,470,000</u>	
	<u>105,748,000</u>	<u>99,793,000</u>	
OTHER ASSETS AND DEFERRED CHARGES			
Unamortized debt financing expense	909,000	946,000	
Miscellaneous	<u>565,000</u>	<u>455,000</u>	
	<u>1,474,000</u>	<u>1,401,000</u>	
Approved on behalf of the Board:			
<i>R. A. Brown Jr.</i> Director			
<i>Robert Campbell</i> Director	<u>\$183,412,000</u>	<u>\$166,336,000</u>	

The accompanying notes are an integral part of this financial statement.

LIABILITIES

	1967	1966
CURRENT LIABILITIES		
Bank indebtedness — secured by investments	\$ 8,130,000	\$ —
Accounts payable and accrued charges	3,252,000	3,550,000
Dividends payable	1,614,000	1,607,000
Current maturities on long term debt	2,137,000	2,277,000
	<hr/> 15,133,000	<hr/> 7,434,000
LONG TERM DEBT (Note 8)	<hr/> 90,333,000	<hr/> 86,624,000
DEFERRED INCOME TAXES (Note 4)	<hr/> 18,352,000	<hr/> 16,253,000

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 3)

Authorized

7,000,000 Class A shares of no par value

5,000,000 Class B shares of no par value

Issued

(Including shares held by subsidiary
companies — see below)

2,699,454 Class A shares (1966 — 2,683,771)	23,535,000	23,240,000
2,565,855 Class B shares (1966 — 2,536,540)	14,365,000	13,917,000
	<hr/> 37,900,000	<hr/> 37,157,000
RETAINED EARNINGS	<hr/> 24,691,000	<hr/> 21,863,000
	<hr/> 62,591,000	<hr/> 59,020,000
Less — cost of 275,506 Class B shares held by subsidiary companies	2,997,000	2,995,000
	<hr/> 59,594,000	<hr/> 56,025,000
	<hr/> \$183,412,000	<hr/> \$166,336,000

Notes to Financial Statements as at December 31, 1967

1. ACCOUNTING POLICIES

(i) Full Cost Method of Accounting

The Company and its subsidiaries follow the full cost method of accounting whereby all costs of exploring for and developing oil, gas and related reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expense, carrying charges of non-producing property, costs of drilling both productive and non-productive wells, and overhead expense related to exploration activities. The portion of the costs associated with operations in Canada are amortized using the unit of production method based upon estimated recoverable Canadian reserves as determined by Company engineers. Costs associated with exploration in the United Kingdom, including all overhead expense incurred prior to the commencement of production, will be amortized based upon reserves discovered in the United Kingdom.

(ii) Depreciation

Depreciation of plant and equipment applied on the straight line method, is based upon the estimated service life of each group of assets.

(iii) Principles of Consolidation

(a) The consolidated financial statements of the Company include the accounts of all companies in which the Company has ownership of more than 50% of the voting capital stock. These include United Oils, Limited, Coastal Oils Limited, Foothills Oil and Gas Company, Limited, Home Oil Company of Canada (a U.S. company), and Home Oil of Canada Limited (a U.K. company). The Company owns 96% of the shares of United Oils, Limited and virtually 100% of the shares of the remaining subsidiaries.

(b) Current assets and current liabilities of foreign subsidiaries are converted to Canadian dollars using the exchange rate at the date of the balance sheet. Fixed assets of these subsidiaries are converted at the rate in effect at the time the assets are acquired while expense items are converted using the average monthly rate of exchange.

2. INVESTMENTS

The Company as at December 31, 1967 held 1,291,885 common shares of Trans-Canada Pipe Lines Limited (market value \$35,527,000); 526,875 common shares of Calgary Power Ltd. (market value \$11,986,000); and 650,000 common shares of Union Gas Company of Canada, Limited (market value \$9,831,000). The market values of these investments are based upon closing market prices on the Toronto Stock Exchange at December 29, 1967.

3. CAPITAL STOCK

(i) Dividends

There are restrictions on the payment of cash dividends on the Class B shares and of dividends in excess of 25 cents per annum on the Class A shares under the provisions of the Deeds of Trust and Mortgage in respect

of certain long term debt outstanding. Under the most restrictive provision the retained earnings available for dividends at December 31, 1967 was \$17,992,000.

(ii) Shares Reserved for Exercise of Warrants and Conversion of Debt

There were 1,128,125 Class A shares reserved at December 31, 1967 for issuance upon the exercise of warrants and the conversion of debt as follows:

Warrants to purchase Class A shares in the amounts of 76,975 at \$14.55 U.S. per share and 32,990 at \$17.66 U.S. per share on or before July 1, 1976	109,965
\$20,363,000 principal amount of 5½% Convertible Subordinated Debentures are convertible on or before December 1, 1984 into Class A shares at \$20.00 per share	1,018,160
	<u>1,128,125</u>

(iii) Options to Purchase Capital Stock

As at December 31, 1967, employees (including officers and directors) held options to purchase 50 Class A shares and 7,050 Class B shares at prices ranging from \$6.55 to \$19.125 per share, exercisable to June 1, 1975. In all cases the option price is equal to or greater than the market price at the granting date, after adjustment for dilution. During 1967, options on 1,693 Class A and 29,315 Class B shares were exercised; no options on either Class A or Class B shares were terminated.

All options on Class B shares were issued under the Employees' Incentive Share Option Plan under which 150,000 Class B shares were set aside for issuance to employees. At December 31, 1967, 1,626 Class B shares were available for option under the plan, the same as at January 1, 1967.

A summary of optioned shares at January 1, 1967 and December 31, 1967 is as follows:

	January 1, 1967	December 31, 1967
Class A shares –		
Officers and directors ..	35	—
Other employees	<u>1,708</u>	<u>50</u>
	<u>1,743</u>	<u>50</u>
Class B shares –		
Officers and directors ..	16,835	5,500
Other employees	<u>19,530</u>	<u>1,550</u>
	<u>36,365</u>	<u>7,050</u>

(iv) Shares Issued During the Year

During the year, 15,683 Class A shares and 29,315 Class B shares were issued for \$295,000 and \$448,000 respectively on conversion of outstanding debentures and exercise of share options.

4. INCOME TAXES

It is the policy of the companies to make charges against earnings for depreciation of plant and equipment based upon the estimated service life of each group of assets, and to amortize the costs of exploring for and developing oil, gas and related reserves using the unit of production method. The companies, however, claim the maximum capital cost allowances and exploration and development costs allowed in calculating income taxes payable. In 1967, the amounts claimed for income tax purposes exceeded the provisions for depreciation and amortization charged against earnings and as a result there were no income taxes payable. The income taxes deferred have been charged to earnings and credited to "Deferred Income Taxes."

7. PROPERTY, PLANT AND EQUIPMENT

The following is a summary of the cost of property, plant and equipment and the related accumulated amortization and depreciation as at December 31, 1967.

Petroleum and natural gas leases and rights, including exploration and development -

	Cost of Assets	Accumulated Amortization† and Depreciation	Net
Canada	\$119,372,000	\$42,068,000†	\$ 77,304,000
United Kingdom (after deducting estimated government grants of \$1,044,000)	3,755,000	-	3,755,000
Production equipment	19,562,000	6,346,000	13,216,000
Land, buildings, pipe line property and other equipment	15,475,000	4,002,000	11,473,000
	\$158,164,000	\$52,416,000	\$105,748,000

8. LONG TERM DEBT

HOME OIL COMPANY LIMITED

5½% Secured Notes, due September 1, 1971

Series A	\$ 200,000	\$ 415,000
Series B (\$1,929,000 U.S.)	1,908,000*	2,291,000*

(subject to annual sinking fund payments)

6½% Secured Sinking Fund Pipe Line Bonds, due November 1, 1977	20,000	153,000
6½% Secured Bonds, due January 31, 1975 (\$6,470,000 U.S.)	6,154,000*	6,806,000*

(subject to payments based on production from pledged properties)

6½% Secured Bonds, Series A, due July 1, 1976 (\$9,564,000 U.S.)	9,884,000*	11,272,000*
(subject to payments based on production from pledged properties)		

5¾% Secured Bonds, Series B, due February 1, 1981 (\$19,542,000 U.S.)	20,990,000*	21,336,000*
(subject to payments based on production from pledged properties)		

6¾% Secured Bonds, due January 1, 1983 (\$7,000,000 U.S.)	7,562,000*	-
(subject to payments based on production from pledged properties)		

6¼% Collateral Trust Bonds, due April 1, 1983	15,000,000	15,000,000
(subject to annual sinking fund payments commencing in 1969)		

5½% Convertible Subordinated Debentures due December 1, 1984	20,363,000	20,544,000
(subject to annual sinking fund payments commencing in 1969)		

6¾% Mortgage, maturing January 1, 1978 (payable in monthly installments)	1,160,000	1,239,000

UNITED OILS, LIMITED

6½% Secured Bonds, Series A, due July 1, 1976 (\$3,637,000 U.S.)	3,932,000	4,495,000
(subject to payments based on production from pledged properties)		

5¾% Secured Bonds, Series B, due January 1, 1981 (\$4,932,000 U.S.)	5,297,000*	5,350,000*
(subject to payments based on production from pledged properties)		

Less current minimum maturities	92,470,000	88,901,000
	2,137,000	2,277,000
	\$90,333,000	\$86,624,000

* Recorded at the rate of exchange in effect when the funds were received by the Company.

The estimated minimum amount in Canadian dollars of long term debt maturities and sinking fund requirements for the four years subsequent to 1968 are as follows: 1969 - \$4.6 million, 1970 - \$5.3 million, 1971 - \$5.9 million, 1972 - \$5.5 million.



Harmattan-Leduc Gas Processing Plant (left centre) and the Harmattan Area plant.



Carstairs-Crossfield Gas Processing Plant.

Sources of Production

Net Wells
December 31

1967	Producing Field	1967	1966	1965	1964	1963
CRUDE OIL – barrels						
67.77	Swan Hills	1,998,839	1,782,699	1,665,081	1,325,564	959,586
54.48	Pembina	457,138	456,209	481,731	551,795	323,244
107.60	Turner Valley	311,963	337,751	357,980	400,199	404,263
31.49	Leduc-Woodbend	251,048	253,183	289,200	355,640	359,980
11.83	Virginia Hills	387,458	395,857	350,084	292,544	220,057
15.80	Harmattan-Elkton	270,024	263,957	253,156	256,600	380,359
17.24	Mitsue-Saulteaux	305,297	284,113	206,178	19,923	–
46.55	Others	440,366	405,702	398,187	423,421	428,548
<u>352.76</u>	Total Crude Oil	<u>4,422,133</u>	<u>4,179,471</u>	<u>4,001,597</u>	<u>3,625,686</u>	<u>3,076,037</u>
	Daily Average	12,115	11,451	10,963	9,906	8,427
NATURAL GAS LIQUIDS – barrels						
–	Carstairs-Elkton	387,382	303,089	352,684	326,788	321,896
2.51	Harmattan	188,046	198,791	169,132	143,963	126,261
–	Calgary	53,614	67,878	34,078	30,339	27,951
–	Nevis	61,158	54,368	54,050	54,569	46,823
–	Others	104,091	87,186	63,983	72,907	66,589
<u>2.51</u>	Total Natural Gas Liquids	<u>794,291</u>	<u>711,312</u>	<u>673,927</u>	<u>628,566</u>	<u>589,520</u>
	Daily Average	2,176	1,949	1,846	1,717	1,615
	Total Crude Oil and Natural Gas Liquids ..	5,216,424	4,890,783	4,675,524	4,254,252	3,665,557
	Daily Average	14,291	13,400	12,809	11,623	10,042
NATURAL GAS – thousands of cubic feet						
3.15	Carstairs-Elkton	8,668,788	9,269,126	10,912,021	9,797,152	9,266,463
3.11	Nevis	3,976,057	3,351,456	3,461,556	3,498,045	3,061,199
10.55	Turner Valley	1,434,901	863453	1,184,000	2,609,436	2,662,567
.75	Calgary	1,367,066	1,679,361	1,525,560	1,478,498	1,254,560
–	Jumping Pound	1,100,354	465,686	587,474	895,641	707,099
.32	Sarcee	1,024,733	1,072,345	989,878	817,455	681,918
–	Swan Hills	894,799	738,070	472,724	350,343	53,103
.46	Crossfield	578,217	409,364	376,480	356,781	325,246
2.97	Retlaw	512,309	492,531	425,919	49,901	–
.90	Harmattan-Leduc	447,422	20,682	–	–	–
.80	South Elkton	393,703	415,636	139,615	–	–
1.20	Pendor	294,253	569,152	603,662	458,034	496,465
2.88	Others	1,584,355	1,374,240	1,886,492	1,381,157	652,909
<u>27.09</u>	Total Natural Gas	<u>22,276,957</u>	<u>20,721,102</u>	<u>22,565,381</u>	<u>21,692,443</u>	<u>19,161,529</u>
	Daily Average	61,033	56,770	61,823	59,269	52,497

A TEN YEAR REVIEW

	1967	1966	1965
Financial			
Gross Revenue	\$ 23,320,000	21,634,000	20,130,000
Net Earnings (exclusive of special credits)	\$ 5,048,000	4,898,000	5,221,000
Per Share	\$ 1.01	.99	1.08
Special Credits	\$ 261,000	—	516,000
Per Share	\$.05	—	.11
Net Flow of Funds from Operations	\$ 11,628,000	10,632,000	10,921,000
Per Share	\$ 2.33	2.15	2.26
Dividends Declared per Share			
Class A Shares	\$.50	.50	.50
Class B Shares	\$.50	.50	.50
Number of Shares Outstanding	4,990,000	4,945,000	4,835,000
Number of Shareholders	13,000	13,700	13,900
Working Capital (Deficiency)	\$ (3,063,000)	5,875,000	(5,963,000)
Cost of Finding and Developing Reserves			
Exploration Expenditures	\$ 6,597,000	6,387,000*	5,296,000
Development Expenditures	\$ 2,723,000	4,032,000*	2,876,000
Property, Plant and Equipment – Net	\$ 105,748,000	99,793,000	90,687,000
Investments in Other Companies	\$ 64,120,000	51,833,000	50,128,000
Long Term Debt (less current maturities)	\$ 90,333,000	86,624,000	69,941,000

* Adjusted for U.K. investment grants.

Operating

Production and Sales

Crude Oil and Natural Gas Liquids

Production – barrels per day	14,291	13,400	12,809
Natural Gas Sales – thousand cubic feet per day	61,033	56,770	61,823
Sulphur Sales – long tons	42,182	20,343	14,714

Proven Developed Reserves

Crude Oil and Natural Gas Liquids – barrels	152,993,000	151,625,000	152,489,000
Natural Gas – thousand cubic feet	708,319,000	721,606,000	677,001,000
Sulphur – long tons	1,636,000	1,241,000	*

Drilling Activity

Gross Wells Drilled	49	54	78
Net Oil Wells	8	3	11
Net Gas Wells	3	6	3
Net Dry Wells	13	11	21

Exploration Acreage

Gross Acres	6,872,000	6,236,000	5,762,000
Net Acres	3,701,000	3,118,000	2,382,000

Daily Average Pipe Line Gatherings

Cremona Pipe Line Division (wholly owned)	37,193	36,265	36,348
Federated Pipe Lines Ltd. (50% owned)	140,235	128,462	110,719

* Not calculated.

1964	1963	1962	1961	1960	1959	1958
18,109,000 4,218,000 .89	14,412,000 2,188,000 .48	13,140,000 1,374,000 .30	11,554,000 1,174,000 .26	9,282,000 33,000 .01	7,781,000 (1,130,000) .25	7,523,000 (268,000) .06
1,012,000 .21	1,034,000 .23	— —	— —	2,690,000 .59	— —	1,593,000 .35
9,643,000 2.03	6,941,000 1.52	5,399,000 1.19	4,631,000 1.02	3,290,000 .72	3,146,000 .69	3,935,000 .87
.35	.25	.25	.25	.25	.25	.25
.35	.25	—	—	—	—	—
4,741,000 12,800	4,565,000 12,800	4,548,000 13,000	4,542,000 13,000	4,542,000 13,030	4,542,000 12,600	4,514,000 12,370
4,897,000	(1,001,000)	(3,317,000)	1,280,000	(9,454,000)	(31,954,000)	(20,992,000)
3,495,000 3,259,000	2,933,000 3,528,000	2,045,000 2,226,000	2,165,000 2,618,000	2,570,000 4,713,000	2,703,000 5,136,000	4,596,000 4,139,000
84,046,000	64,559,000	60,774,000	58,327,000	54,936,000	53,463,000	47,715,000
36,331,000	33,887,000	41,169,000	40,614,000	39,763,000	34,421,000	31,187,000
67,287,000	47,069,000	52,430,000	55,943,000	42,315,000	14,122,000	15,436,000
11,623 59,269 19,913	10,042 52,497 6,569	9,402 43,136 4,392	8,908 36,073 3,555	7,849 30,697 —	7,357 16,701 —	6,935 16,040 —
14,937,000 01,833,000	84,419,000 555,300,000	71,725,000 506,660,000	73,196,000 497,713,000	66,820,000 459,271,000	54,981,000 297,096,000	43,919,000 266,389,000
*	*	*	*	*	*	*
52	68	65	78	98	57	43
16	8	9	11	19	11	5
1	3	2	1	2	3	3
8	9	10	11	7	6	7
5,759,000 2,035,000	4,712,000 1,408,000	3,561,000 1,007,000	3,609,000 1,055,000	3,791,000 1,189,000	4,725,000 1,660,000	2,541,000 1,104,000
33,496 82,252	31,862 67,727	29,260 58,918	17,597 42,257	10,850 19,654	9,452 5,185	8,055 —

Exploration Acreage - January 1, 1968

Area	Petroleum and Natural Gas Leases		Reservations, Licenses, Permits		Total	
	Gross	Net	Gross	Net	Gross	Net
Alberta	1,751,580	885,374	1,848,841	1,090,385	3,600,421	1,975,759
Alaska	265,893	115,202	-	-	265,893	115,202
British Columbia ..	46,759	16,416	-	-	46,759	16,416
Ontario	48,919	25,935	-	-	48,919	25,935
Saskatchewan	161,139	52,208	1,048,085	665,021	1,209,224	717,229
United Kingdom ...	-	-	1,700,758	850,380	1,700,758	850,380
TOTAL	2,274,290	1,095,135	4,597,684	2,605,786	6,871,974	3,700,921

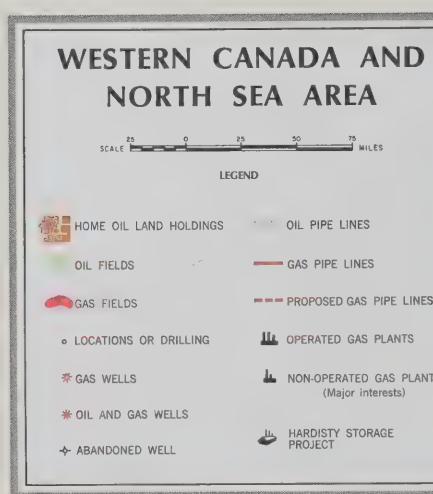
Reserves - January 1, 1968

Category	Crude Oil (barrels)	Natural Gas Liquids (barrels)		Natural Gas (1,000 cu. ft.)	Sulphur (long tons)
Proven					
Developed	135,151,900	17,733,300		698,697,000	1,636,300
Undeveloped	108,200	-		9,622,000	-
	135,260,100	17,733,300		708,319,000	1,636,300
Probable Additional					
Secondary	80,613,900	232,400		16,171,000	9,900
Areal	538,000	-		25,736,000	-
	81,151,900	232,400		41,907,000	9,900
TOTAL	216,412,000	17,965,700		750,226,000	1,646,200

Reserves estimated by the Company's reservoir engineers.

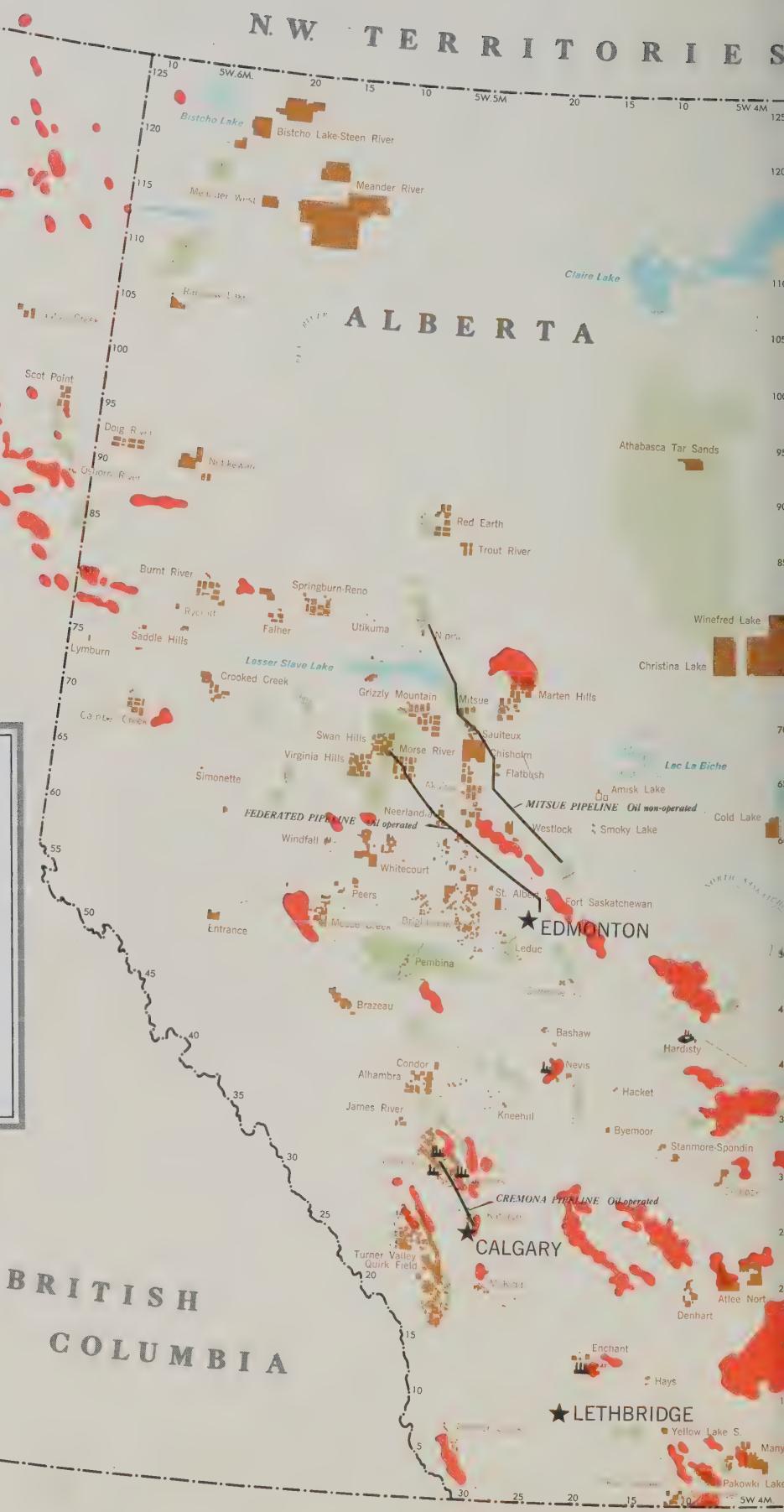
HOME OIL COMPANY LIMITED

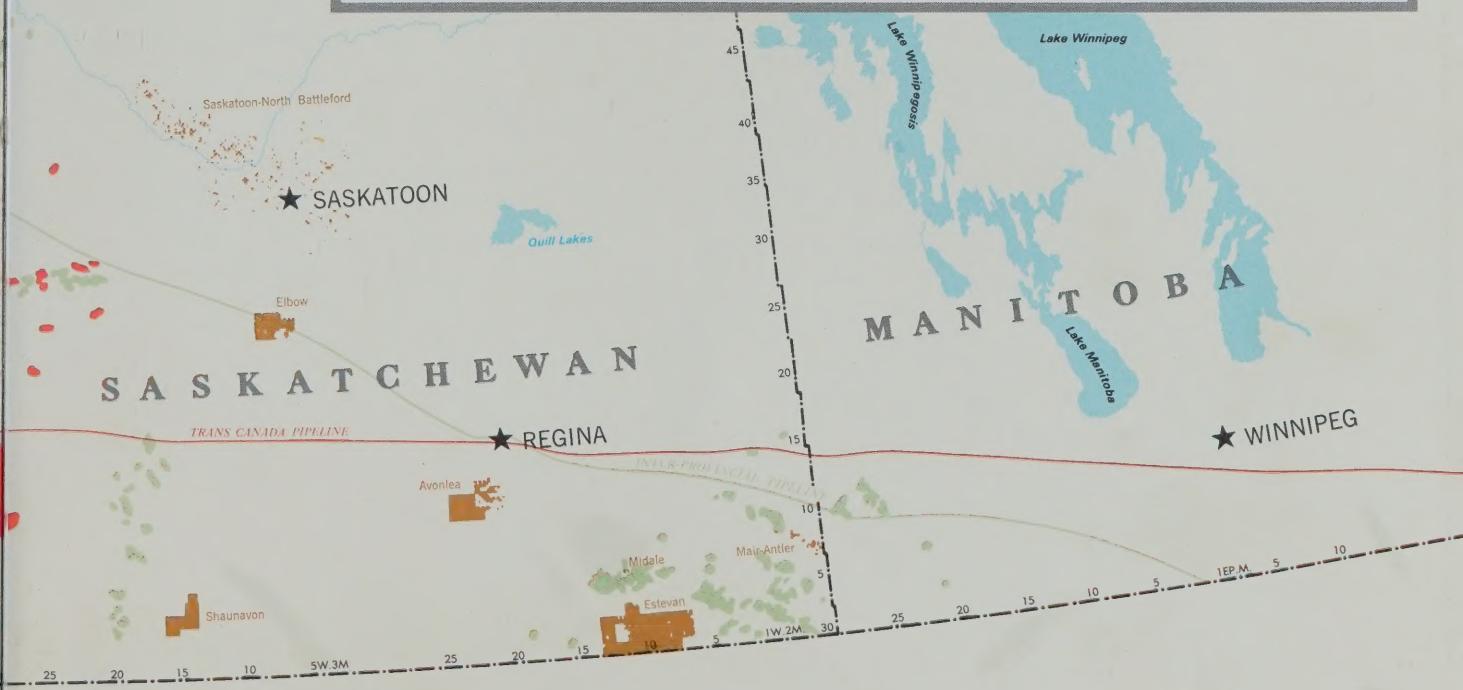
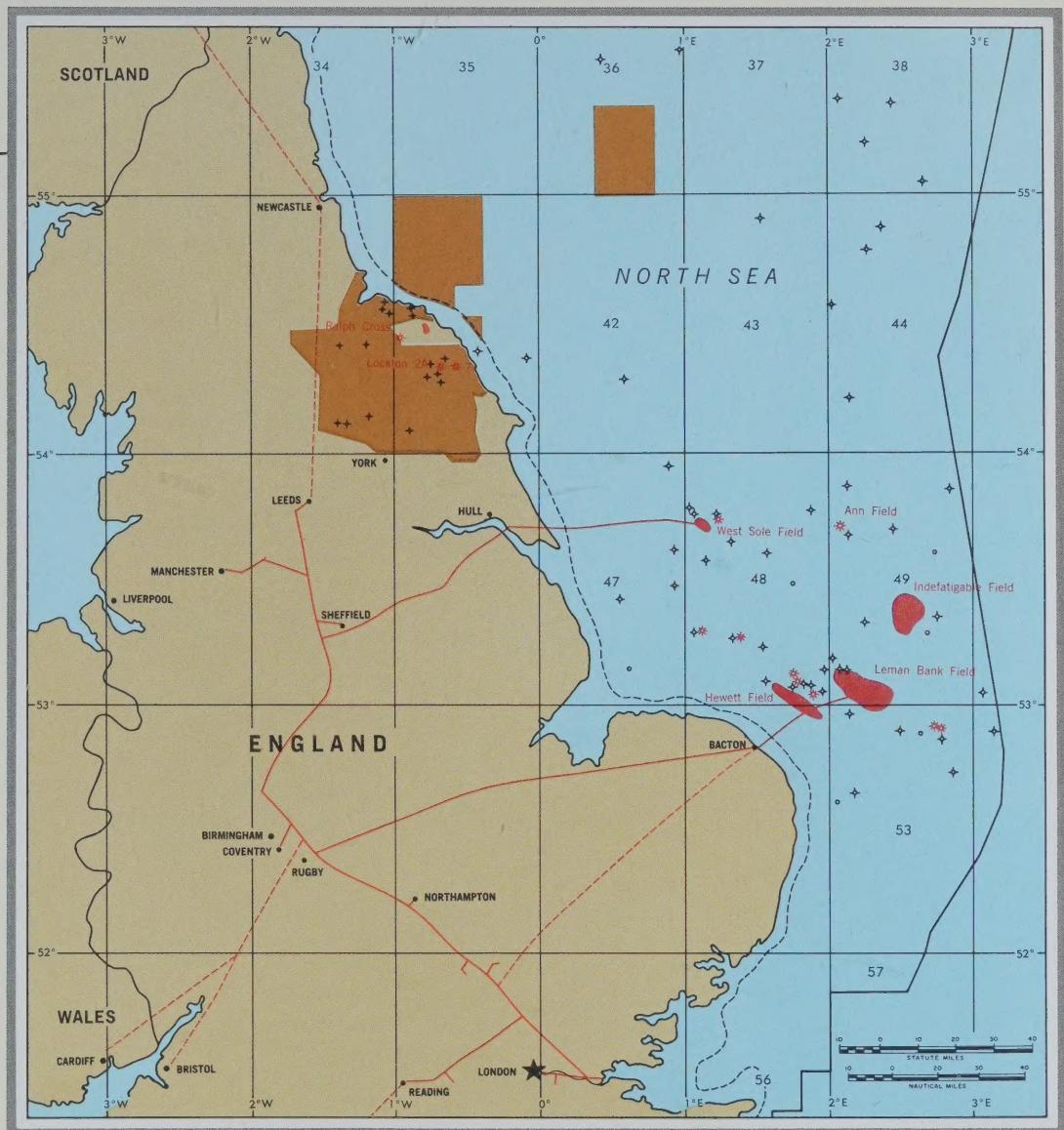
**MAP OF
LAND HOLDINGS
1967**



★ VICTORIA

★ VANCOUVER





A.

AUDITORS

Riddell, Stead, Graham & Hutchison

SOLICITORS

Macleod, Dixon, Burns, Love, Leitch, Lomas,
Charters & Montgomery, Calgary, Alberta
Dunnington, Bartholow & Miller, New York, N.Y.

BANKERS

Canadian Imperial Bank of Commerce
The Chase Manhattan Bank

TRANSFER AGENTS

Crown Trust Company
The Chase Manhattan Bank

REGISTRARS

Crown Trust Company
The Canadian Bank of Commerce Trust Company

LISTINGS

Toronto Stock Exchange
Vancouver Stock Exchange
Calgary Stock Exchange
Montreal Stock Exchange
American Stock Exchange
Pacific Coast Stock Exchange

